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Advances in industrial distribution • Law quiz time
Truck vs. rail • Inside purchasing: A sad want ad

THE BUYER'S MAGAZINE ®

MAY 1990

Purchasing research: How do you measure up?

Dr. Harold Fearon, director of the Center for Advanced Purchasing Studies

Motors

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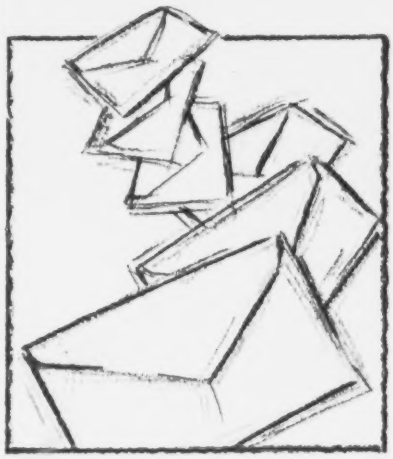
PurchasingWorld



Where credit is due

Why not give credit where credit is due. The very same ideas you attempt to outline in your article (*"Purchasing into the '90s...and beyond—PurchasingWorld, January 1990)* are some of the basic points taught for years by Dr. W. Edwards Deming, many of which were spent with the same Japanese industries you are comparing. In fact the auto industries in this country are actively pursuing Dr. Deming's philosophies as evidenced by the Ford Taurus and General Motors Saturn, to name a couple.

If business in this country would recognize Dr. Deming as a leader in the management world and begin to learn his methods to achieve quality, both productivity and costs of production would improve, making the U.S. more competitive in the world market.

Act like professionals

I recently saw your editorial in the *PurchasingWorld* magazine. You raised some significant issues regarding the purchasing profession.

Note that my perspectives have been colored by my experience as a former purchasing manager, contracts manager, engineering manager, and house counsel for major corporations across the U.S. At the current time, I am president of a consulting firm headquartered in San Diego.

In some ways, the purchasing profession, perhaps, gets what it deserves—as a famous comedian stated, "I don't get no respect."

If, indeed, the purchasing professionals want to be treated as professionals, than they are going to have to act as professionals. Merely complaining about their tarnished image reinforces the beliefs, on at least part of the population, that as Shakespeare once said, "The lady doth protest too much, methinks."

Yes, indeed, there are quite a number of professional, honest, intelligent, hardworking purchasing professionals. Having said that, however, I think we should all recognize that the profession is also peopled by individuals who were put there by corporations to get them out of positions in which they could do some damage.

From my perspective, I feel that the professional procurement/purchasing associations are not doing enough. Even today, far to much emphasis, in my estimation at least, is focused by these associations on negotiating on price. It's my opinion that focusing on price demeans the entire profession to the level of haggling in a Casablanca rug market. What about the other issues which are often critically more important to a corporation than price, such as insurance, risk of loss considerations, patent rights, contract administrative control, and continued business relationships that support both buyer and seller organizations?

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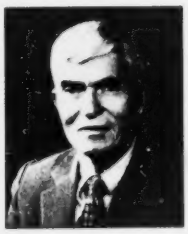
PW PREDICTS

The good news continues

The recent good news on the industrial pricing front looks to be continuing.

Tags on some items are moving up, but there's plenty of weakness to offset them. Take the National Association of Purchasing Management's price barometer; the latest reading of this amalgam of industrial purchases is still below the neutral 50 mark, suggesting that falling quotes actually outnumber those that are rising. That's been the case for 10 straight months.



Other indications of continuing ease include 1) the relatively flat pattern in the government's industrial producer price index and 2) the excess supplies being reported in such key raw materials as steel, nonferrous metals, chemicals, plastics, and paper.

The impact of all this raw material softness can't be underestimated. If nothing else, it removes the pressure for cost pass throughs on the intermediate and finished goods levels. In any event, there hasn't been one recent inflationary spiral that has not received its initial impetus from a crude material price runup.

Even the wage picture remains quite comfortable. That's not to say that unit labor costs aren't creeping up; they are, but the majority of the increase is centered in the service area.

More to the point, the situation in manufacturing (the area of immediate concern to industrial purchasing managers) isn't all that bad. That's basically because good factory productivity gains are to a large extent offsetting increases in hourly pay.

Last year, for example, unit labor costs in manufacturing rose only 1.5% (as a 4.3% boost in pay was offset by a 2.8% efficiency gain). That's far under the 4.5% advance recorded for the all-U.S.-industry unit labor cost measure.

And this year's wage cost picture doesn't look to change that much—as productivity gains persist and pay gains remain moderate. Employment costs jumped earlier this year because of higher Social Security contributions. And another rise is occurring this quarter from higher minimum wages. But beyond that, employment costs should top out.

The reason isn't hard to find: with GNP growing more slowly, unions this year are more likely to focus on job security and non-wage benefits, rather than on bigger paychecks. The tip-off should come this summer, when auto workers begin negotiating.

Moreover, this lull in wage pressure is likely to persist. A new report by the Conference Board sees the nation's factories racking up solid 2-3% productivity advances through the current decade. Conclusion? There's little danger of any new inflationary spiral—provided hourly pay hikes can be kept within bounds.

There are other signs that inflationary forces will remain under wraps, too. The capacity factor continues to increase faster than demand, making for potential supply gluts that will eventually take a toll on prices.

Then there are 1) continuing foreign competition (as the dollar remains stronger than it was a year ago) 2) slowly declining energy tabs, and 3) stronger buyer resistance to price increases. The latter shows up most vividly in the increasing number of discounts reported over the past few months.

What does it all add up to? ***PurchasingWorld*** equations call for industrial producer quotes rising only 2-2.5% this year, with the more inclusive GNP price deflator advancing at only a slightly faster 3.5-4% rate. Key point to keep in mind is that both estimates are under last year, when industrial tags rose 5% and the GNP deflator by 4.5%.

by Robert S. Reichard

Material handling costs stay down

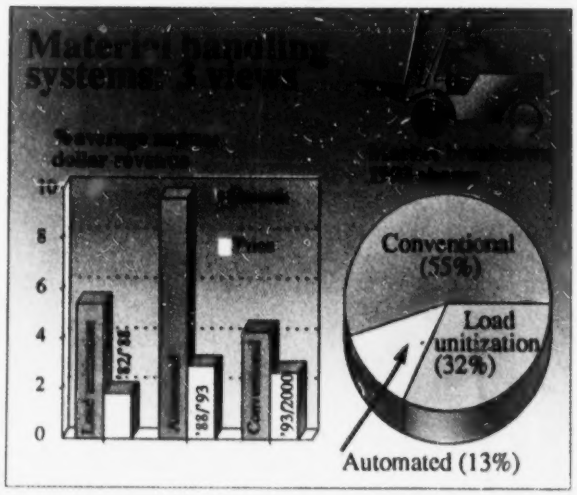
Good news for buyers of material handling systems: despite the likelihood of continuing solid demand gains, price increases should remain quite modest.

The details, contained in a new Freedonia Group study, see volume purchases advancing about 2.4% per year into 1993, prices by 2.9% a year. And price boosts beyond that (to the year 2000) are put in the even lower 2.6-2.7% range.

Much of the price restraint can be traced to imports, which now make up about 17% of the market. Heaviest imports, according to the Cleveland-based research firm, are centered in the industrial truck and conveyor areas—with automated equipment also beginning to accelerate. The biggest overseas suppliers: Japan, Germany, England, France, and Switzerland.

Meantime, here is how demand trends are shaping up in key sectors of this close-to-$10-billion-a-year industry:

- **Automated systems:** biggest advances are seen here (about 9.6% a year in current dollar terms). Sparking sales of these items (automated storage/retrieval systems, automated guided vehicles, robots, automated conveyors, and electrified monorails) will be improved technologies, lower costs, and availability of systems which interface automated with conventional equipment.
- **Conventional systems:** dollar growth for these items (conveyors, hoists, cranes, monorails, and industrial trucks) is put at a more modest 4.3% rate. Industrial trucks should fare best. On the other hand, shipments of bulk conveying equipment, hoists, cranes, and monorails will remain sluggish.
- **Load unitization systems:** dollar sales of pallets, strapping, and palletizers, are expected to grow 5.4% per year. Demand will be buoyed by palletizers which can be incorporated into automated systems—and by products that can be used in a wide variety of applications such as strapping, film wrap, and pallets.



Aluminum bottoms out

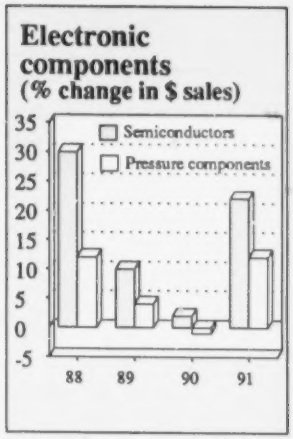
The light metal seems to be bottoming out, at least temporarily, with ingot now commanding a bit over 70¢/lb. There's no need to worry about a new runup, primarily because U.S. mill shipments this year are expected to run only the 7.6-7.8 million ton range, 3-5% under last year's levels. Also calculated to keep a lid on tags: rising capacity. It suggests a small surplus for the year as a whole, with tags possibly falling again, perhaps as low as 60¢/lb., by sometime this fall or early winter.

Steel erosion still the rule

Price erosion in steel is more the rule than the exception. One recent estimate puts the average quote of all steel at only $491/ton, some 2.5% under fourth quarter 1989 levels. The shading is most severe in commodity-type items like hot-rolled sheet, where spot transaction tags fell by close to 5% over the same period—leaving these quotes more than 20% under last spring's levels. Cold-rolled prices are also low (around $470/ton at latest report). But some edging up is possible here by summer, to near $500/ton. due to low buyer inventory positions.

Electronics pressed down

Count on continuing downward price pressures as the big semiconductor market increases by a bit over 2% this year (current dollar basis), far under the 10%-plus gains of 1989. All told, average selling prices should be down 3%. Similar sluggishness is seen for passive components, where little overall demand is anticipated. But next year could see a substantial pickup, with dollar gains for semiconductors and passive components put at 22% and 11%, respectively. The projected 12% gain in computer and office equipment will support this pickup.



Resin tags pushed down

Sharply lower feedstock costs for ethylene glycol and paraxylene have helped push resin tags down, reversing last year's price runup. As of latest report, material was moving in the 58¢/lb. range, off about 5¢/lb. from last fall's levels. And bottle makers are pressing for another 5¢/lb. decline. Demand, meantime, is beginning to pick up and the overall 1990 gain should easily top last year's disappointing 2% level. Capacity, however, is ample, with output at latest report running at only 75-78% of estimated industry potential.

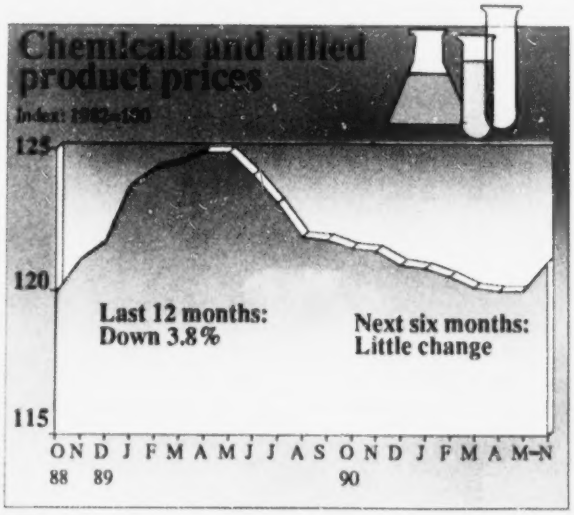
Chemical prices easing

CURRENT SITUATION: Markets remain on the sluggish side. Output during the first quarter did little more than match late 1989 levels. **More important, the easiness is spreading into the price sphere.** Some plastic resin tags have been edging higher—notably polyethylene and polypropylene. But these, as well as most other resins, remain well under year-ago levels. There are good buys in industrial chemicals, too, as averages actually declined in the first quarter about 0.5%. And judging from the current combination of lackluster demand and still-rising capacity, **the April-June period is likely to see similar price slippage.**

DEMAND: There is little to suggest any significant increase in orders this year. For one thing, only a 2% increase in GNP will present few opportunities for domestic growth. The stronger dollar is inhibiting exports, so the best bet for 1990 is **little more than a 2.5% boost *vis a vis* 1989.**

SUPPLY: Excess capacity is now the order of the day, as additional production potential continues to come onstream at near 5% annual rate. Not surprising, industry capacity utilization has dropped from a high of 89.3% in early 1989 to 87% currently, with a further drop to 85% likely before year end. One example is ethylene, which was operating flat out early last year, and has now dropped to 90%, and is still falling.

PRICE OUTLOOK: Current shakiness should persist, through summer and perhaps even beyond. In any case, averages will hold pretty much at current levels. And several bellwether chemicals—especially in the organics area—should experience substantial weakness. Ethylene could drop under 20¢/lb. by year end or early 1991. Styrene and most plastics aren't going anywhere, either, but benzene could inch a bit higher. Looking further into the future, today's oversupplied markets are likely to persist, **with overall price averages rising only 0.1-1% in 1991.**


Chemicals and allied product prices
125
120
115
Last 12 months: Down 3.8%
Next six months: Little change
O N D J F M A M J J A S O N D J F M A M J
88
89
90

Antimony hits the bottom

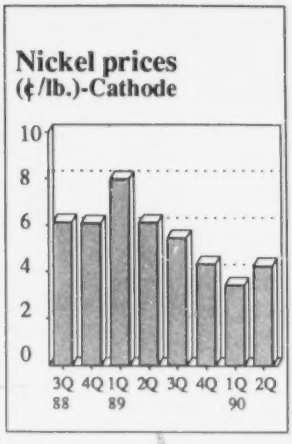
The metal seems to be bottoming out in the 85¢/lb. range, some 15¢/lb. under year-ago readings. Behind the stabilization: the reduced number of producers in the market and some modest pickup in end-use markets (fire retardants, ceramics, plastics, and glass). Another possible firming factor is the Chinese sale of 100% of the country's total output. All this, in turn, would seem to point to a modest updrift, with tags again approaching the $1/lb. mark by late fall or winter.

Paper markets still soft

Markets continue to soften. Premium grade pulp is being discounted by as much as $15-30/metric tons off the $830/metric ton official list. Some lower grades are being shaded by as much as 12-14%, with some uncoated white papers boosted 5%. Discounting is rife here, however, as it is in coated paper, especially the groundwood grades. Newsprint prices are also well under list, and even with a new $35/ton boost to $685, the prevailing newsprint transaction quote is expected to remain well under that, probably somewhere in the $560-575/ton range.

Nickel now stabilizing

Prices are stabilizing in the $4/lb.-plus range after falling as low as $2.78/lb. earlier this year. Don't expect



a big rebound, with the $8.65/lb. high commanded at one point last year remaining nothing but a bad dream. The reasons for continuing low quotes are poor demand from the auto industry and an expected leveling off in capital equipment usage. Total demand is put at 1.42 billion pounds this year, *versus* a new supply of 1.44 billion pounds. This excess is small, and should be easily handled by the market.

Lead prices head lower

Tags have edged lower after hitting the highwater 65¢/lb. mark in early March. They remain far above the 44¢/lb. end-of-1989 low, however. Behind the softness: expectations of a sluggish near-term order pattern (due primarily to reduced Detroit demand for batteries) at a time when global supply will be increasing by upwards of 1%. This could mean as much as a 100,000-ton surplus for the year, something which could force tags down by as much as 20¢/lb. by late summer or fall.

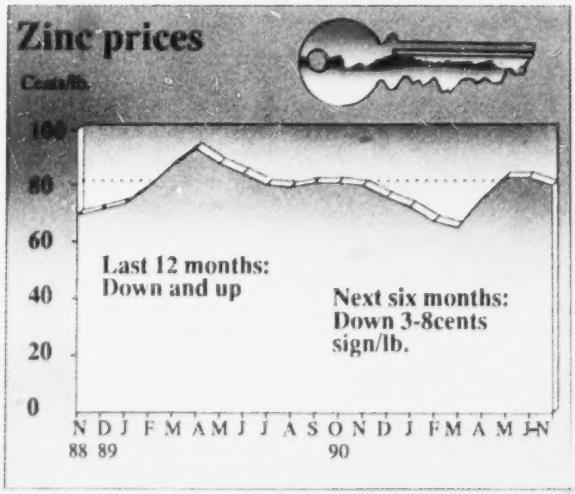
Zinc prices are turbulent

CURRENT SITUATION: Volatility is the name of the game these days as relatively small 1-2% shifts in the stock/sales ratio make for major price swings. Unfortunately, the latest direction is up—as supply disruptions spark the market for this big-volume plating and alloying metal. Rates in recent weeks, for example, have jumped into the 80¢/lb.-plus range—**close to 15¢ above recent February lows.**

DEMAND: Sluggish automotive and construction activity should limit near-term end-use consumption. Indeed, US usage this year will be lucky to equal, much less top, last year's estimated 1.09 million metric ton level. **And the same flat pattern is anticipated for the free world as a whole**—with totals likely to do little more than equal last year's estimated 5.3 million metric ton figure. But galvanized zinc, viewed separately, should manage to eke out a small gain—primarily because of increased per vehicle use in the auto sphere. Looking further ahead—**long-term US growth should average in the low 1-2% range.**

SUPPLY: Current tightness should give way to better balance—as production dislocations are resolved and demand remains relatively flat. Indeed, if all goes well, the year could end up with a slight global surplus—enough to push inventories back up to normal levels by year end. Also on the plus side, US production could rise as much as 9% this year as 1) Zinc Corporation of America's Menace mine expands and 2) Alaska's Red Dog mine edges toward full initial production. Also reassuring: the industry's capacity is pegged at near 5.6 million tons (a bit above use).

PRICE OUTLOOK: Near-term volatility is likely to persist—thanks to delicate market balance and the existence of a single world price on the London Metals Exchange. Nevertheless, better supply/demand balance does suggest a gradual, if irregular, downward drift—with prices dropping as low as 75¢/lb. this fall.



Lower prices for keyboards

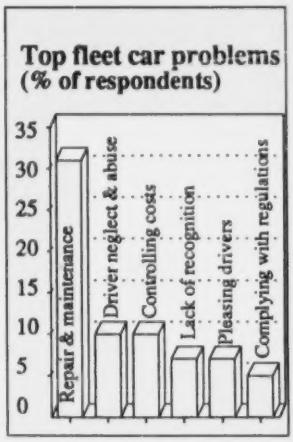
Continuing price pressures are reported in the large-volume full-travel 101-key market. Buyer emphasis is shifting to low-cost membrane switching technology, an approach that permits purchases in the $30 or lower range. That's well under the $35 and over and $40 price floor on hard contact electromechanical and capacitance models, respectively. Membrane types also offer size and weight advantages for new laptops and notebook-type computers.

Copper prices continue up

Prices continue to run above earlier expectations, primarily because of a combination of temporary supply disruptions and below average inventory levels. But the day of reckoning will eventually come, as increasing production catches up with (and then surpasses) demand. The betting is that tags could be down near the $1/lb. mark by late summer or early fall, with the average for the year coming in significantly under last year's $1.31/lb. level. A further drop into the 70-80¢/lb. range is possible by 1991.

Upkeep is fleet problem

Repair and maintenance outlays are fleet car managers' most pressing headache these days. Close to one-third of some 250 executives responding to a new Runzheimer survey list this



as their number one problem. Other pressing concerns (in descending order): driver neglect and abuse (10%), controlling overall costs (10%), lack of recognition (7%), pleasing drivers (7%), complying with regulations (5%), and finding time to manage (5%). Their biggest future concern is rising costs, followed by increasing Federal regulation and alternate fuel requirements.

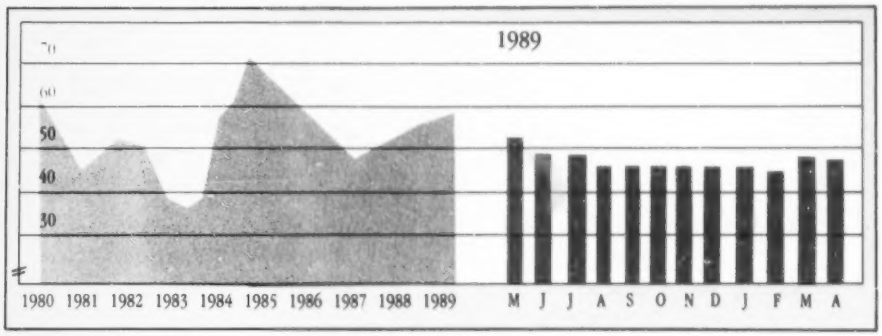
Electronic parts mark decline

Recent declines have brought tags on 1-Mbit DRAMS down into the $6-8 range—only about half the price-spread prevailing just one year ago. The lower prices could, in turn, delay any major shifts to 4M-DRAMS—probably until 1991. But 1Mbit DRAM buyers may find future price declines harder to come by, as producers slow down chip production. The slowdown would still seem to assure an adequate supply, particularly since the industry now expects to sell only 600 million units—100-150 million under previous estimates.

BUSINESS DATATRAK

N.A.P.M. business barometer

Based on five indicators (employment, inventories, new orders, production, vendor performance).



KEY ECONOMIC TRENDS

Downturn fears fade

Things are looking somewhat brighter these days, as fears of a business downturn slowly fade.

The most impressive bit of news: a bottoming out in the widely monitored National Association of Purchasing Management (NAPM) Business Barometer (see chart). The latest 48.8 reading is one-half a percentage point above the previous month, and more than 3.5 percentage points above the recent January low.

Especially encouraging are increases in both the production and new order components of the index. Another plus: new export orders are at the highest level since last September—and this despite a relatively strong U.S. dollar.

NAPM business survey committee chairman, Bob Bretz, sums it up: "The continuing easing in the pace of economic decline as we exit the first quarter is encouraging. But despite the fact we may be forming a bottom, caution should be exercised."

Lending credence to possible better days ahead is the leveling out in nondefense capital goods orders (see chart). It means that corporate executives are still willing to spend when conditions are right. The latest numbers seem to suggest that capital spending in real terms will at least equal last year's levels.

Other durable goods orders aren't bad, either. Add transportation and defense ordering, and total durables are running nearly 2% over the previous month.

Consumer attitudes may also be perking up—with the Conference Board's confidence index rising 3.5 percentage points (to 110.2) at last report (see chart). Particularly encouraging is the fact that people are more upbeat about business conditions and the availability of jobs than they were earlier this year.

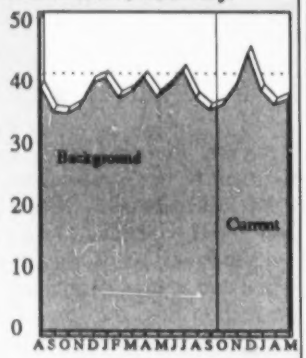
This, in turn, would seem to indicate that retail sales will continue to hold up. Soft goods purchases never really dropped. And now there are increasing indications that auto purchases (with the aid of incentives) may be close to last year's 9.9 million-unit total.

One sign of better days for Detroit: automakers are raising their production sights. Right now they seem to be planning on turning out 1,749,000 vehicles in the second quarter—up 18.6% above the number produced during the first three months of the year.

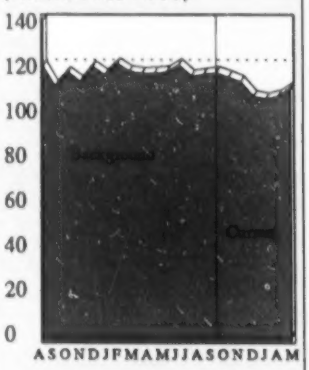
Housing also may have hit bottom. Sales of new homes turned up in February after a big 7% January decline. Upshot: most estimates now call for the construction of as many as 1.5 million new units this year—up modestly from

Leading indicators

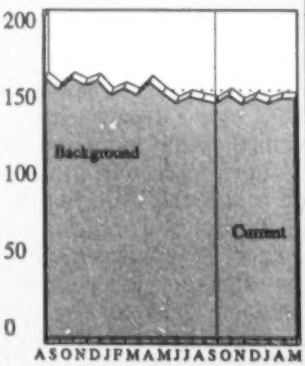
Capital goods(non-defense)
Orders-Bill. $ seas. adj.



Consumer Confidence
(Index: 1985=100)



Help wanted
(Index: 1967=100)



last year's 1.4 million level.

The employment outlook isn't bad, either. For one, help wanted advertising has bottomed out (see chart). Also the number of jobs is on the rise again, and the unemployment rate remains relatively unchanged at a bit over 5%.

Another significant positive factor is the continuing low level of inventories relative to sales. For all manufacturing, the latest reading is put at 1.60 months, unchanged from beginning-of-year levels and well under the 1.70 levels that prevailed as recently as 1986.

What does it all add up to, then, in terms of new industrial production? *PurchasingWorld* equations now point to a slow gradual rise—as the nearly flat pattern of the past six months gives way to as much as a 3% annual rate of growth over the spring and summer months.

CURRENT PRICES

Producer prices edge lower

It almost seems too good to be true, but Uncle Sam's all-inclusive producer price index actually edged lower over the last reported month (see chart).

There were special circumstances—primarily the failure of some beginning-of-the-year price boosts to hold up (normal for this time of year) and a rather sharp decline in most energy products. But even if you remove these special factors, the overall price pattern remains basically flat—with increases and decreases balancing each other out.

Looking first at energy, the overall decline here came to a hefty 4.1%. Lower tags were reported for gasoline, residual fuel, diesel fuel, kerosene, electric power, and crude oil. Only natural gas managed a fractional advance.

Several paper products were also off during the month, including corrugated, fine papers, and pulp. And judging from late-breaking developments, further slippage can be anticipated here for the current month.

Plastics and chemicals, on the other hand, showed some signs of bottoming out. This could prove temporary, as new capacity continues to come on-stream in excess of demand projections in virtually all key areas.

Metals, meantime, are a mixed bag. Steel is still edging lower. Some nonferrous metals—mostly copper, lead, and zinc—all sported increases. These latter gains are beginning to wash out, and this could mean a decline when the next round of government statistics is released.

Capital equipment tags generally tended to advance, but at a snail's pace. The 0.2% increase this past month comes to less than 2.5% at annual rate—considerably under last year's average rate of advance.

Also on the favorable side is the relatively flat pattern in construction materials—with the drop-off in housing being the major braking factor. Here, too, little change is anticipated, with perhaps some edging off in plywood, as supplies increase after weather-related tightness.

Put all the above into the projection hopper, and it's hard to see the industrial producer price average increasing by more than 0.2-0.3% a month through mid-year—roughly 2.5-3.5% at annual rate.

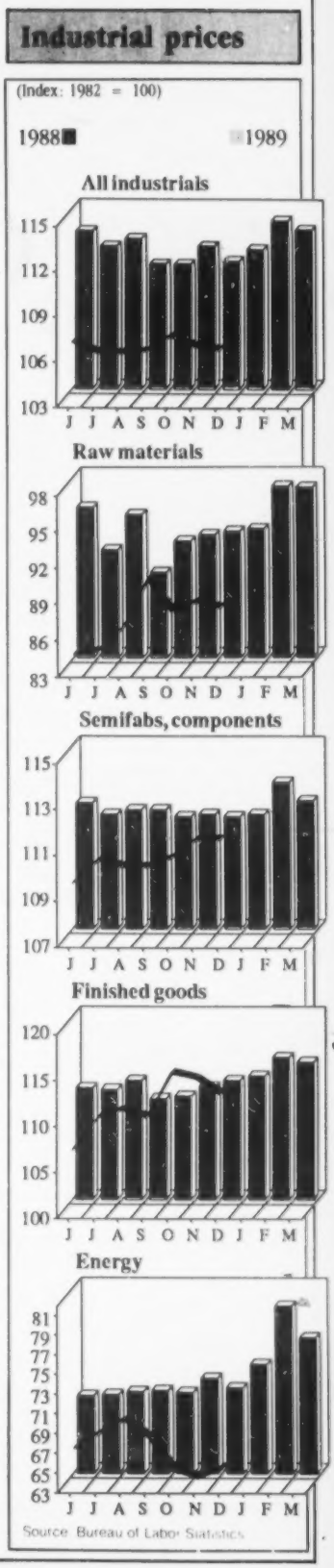
How much for distribution?

Don't overlook distribution when planning new cost-cutting drives.

To be sure, these outlays expressed as a percent of sales have been falling in recent years (see chart). But the fact that absolute cost per hundredweight has been steady or even higher over this period indicates that higher product prices rather than better distribution may be behind the improving "percent of sales" performance.

New figures released by Herbert W. Davis & Company, Englewood Cliffs, NJ, also suggest variations in these costs between and within individual industries, as follows:

- **Between industries:** while the latest overall average (expressed as a percent of sales) is 7.46%, an area like replacement parts is sporting an 11.56% share. At the other end of the spectrum are pharmaceuticals, where only 2.45% of each sales dollar goes for distribution.
- **Within industries:** there is a wider dispersion here than between groups. Industrial durables are selling for less than $10/lb., and although the average company here spends 8.77% on distribution,



over one fourth of surveyed firms had costs under 4.85%.

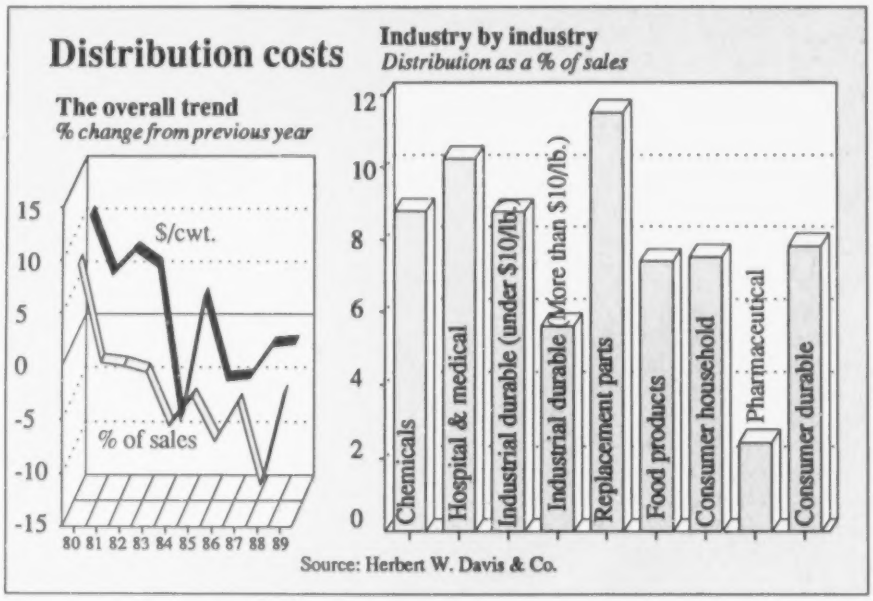
Clearly some of these companies are doing something different, otherwise why would the lowest cost outfit be shipping similar products to the same customers at one-third the cost of the higher cost firms?

The Davis study also pinpoints the importance of the various distribution costs. Leading the list is transportation (2.92% of the 7.46% all-industry average). Inventories and warehousing are next in importance—with 1.91% and 1.83% contributions

Finally, a few Davis & Company suggestions on how to improve performance: short range, these would include the need to make the most of current facilities; use warehouse productivity standards; get state-of-the-art equipment; negotiate lower transportation costs, and change warehouse service areas.

In the intermediate time frame, find out what your current customer service level is; what your competition is doing; evaluate marketing policies that add to distribution costs.

And for the long range, replan your facilities' configurations; bring your system up to date, coordinating with marketing and company goals.



Source: Herbert W. Davis & Co.

PROCUREMENT STATUS REPORT

More thrust for buyers' market

The flat business pattern of the past few months has added new impetus to the already-existing buyers' market. Some of the evidence:

- Factory operating rates have dropped to the 82% level, and seem more likely to go lower than higher in the months immediately ahead.
- There have been more supplier delivery speedups than slowdowns for 11 straight months. This shows up most clearly in leadtimes, with more than three out of every four products coming in faster than just one year ago.
- 30-day (or less) buying is on the increase. And at the other end of the spectrum, just a handful of PMs say they are committing 90 days or longer in advance.
- Inventory retrenchment continues, albeit at a diminished pace. The downtrend here has been uninterrupted for over a year, indicating that no one is worried about getting things in a hurry should the need arise.
- The NAPM short supply list is dwindling, and is now down to six items. That's the fewest since the economic recovery began in 1983.

The six items noted: bearings, electric motors, alkalis, hydrogen peroxide, sodium chlorate, and titanium dioxide. The latter three are all due to the move away from chlorine use by papermakers to avoid dioxin.

Dynamic random access memories (DRAMs) are the only other item reported by some buyers as being somewhat tight. And this is only a temporary phenomenon, with chip makers already backing off their early decision to cut production schedules. In any event, there is still more-than-ample capacity around in this area, and supplies should be adequate again by late spring.

This "no sweat" situation in most industrial items is expected to continue over the longer pull, too, as new capacity coming onstream outpaces projected demand gains. Areas likely to remain especially easy: steel, nonferrous metals, most chemicals, plastics, and paper.

Factories function at lower rates

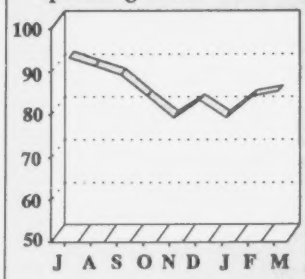
New Federal Reserve Board factory utilization estimates confirm today's relatively easy supply situation.

Almost two full percentage points have been knocked off the overall operating rate over the past 12 months (see chart). While hardly earthshaking, it has been enough to make for 1) less upward demand pressure on prices and 2) dwindling lead times.

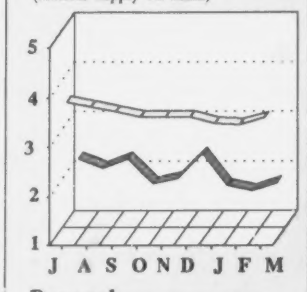
A closer look also reveals that all sectors appear to be problem-free. Indeed, paper is the only industry now above the 90% level (91% to be exact). And even this has to be considered quite low—for paper mills traditional-

Steel

Operating rates

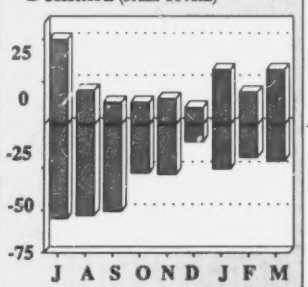


Inventories
(Months supply on hand)



Demand (STEEL SERVICE CENTERS)
(Percent of respondents)

Demand (STEEL BUYERS)



Source: Steel Service Center Institute, NAPM Steel Buyers Committee

ly prefer to operate in the 95%, or even higher, range.

Also indicative of an improving procurement situation is the fact that all but two industries are sporting lower rates than a year ago. The two exceptions are nonelectric machinery and petroleum products where levels have remained relatively unchanged.

The most impressive declines have been in raw materials—and this is one reason why prices have been quite weak here in recent months. Metal activity, for example, has dropped from an 88%-plus rate to less than 82%—with impressive fall-offs also noted for chemicals and paper.

Some of the more highly fabricated sectors of the economy have not escaped unscathed either. Auto plants are operating at less than 71.5% of their potential—far under the 85% figure of early 1989. And electrical equipment makers, while not down all that much from last year, are operating at a very low rate—under 76%.

More important, this same basically oversupplied pattern is expected to persist for some time. Reason: The 3% rate of new capacity additions of recent quarters looks to continue. It is a rate that will equal or surpass projected increases in industrial production.

Upshot: operating rates should remain in the relatively low 81-82% range through summer and fall. That's a net insignificant three to four percentage points under the 85% level that traditionally has separated a buyers' from a sellers' market.

STEEL SCENE

Steel increases are anticipated

Steel activity could be ready for a modest pickup.

That's what service centers and purchasing managers are saying these days. Surveys of both groups show many more anticipating an increase in demand over the next three months.

Latest figures are particularly encouraging on the purchasing front. The substantial number of steel buyers who plan on increased purchases over the next 90 days represents a shift from a month earlier when increases and decreases balanced each other out. In any event, the latest ratio in favor of advances (3:2) is the best showing here in more than two years.

Distributors responding to the latest Steel Service Center Institute (SSCI) survey tell pretty much the same story. Moreover, the favorable proportion indicating increased business has held steady now for four consecutive months, with the ratio over the past month in the 2:1 range.

Commenting on this, SSCI President Andrew S. Sharkey said, "Most steel consuming industries remain healthy." But he hastens to add that a few areas like transportation equipment still leave a lot to be desired.

Even so, it now seems apparent that second quarter steel shipments will show some improvement. Right now the betting is that domestic mills will ship some 21 million tons over the three-month period—up 0.7 million tons or 3.5% from a disappointing first quarter.

One reason for this gain could be the end of the long inventory correction. Total user stocks in the current quarter should remain relatively unchanged after the near-one-million-ton drawdown of the previous six months.

Both service centers and buyers say their inventories are still too high relative to sales, but they always tend to say that. More important is the fact that the number feeling this way is slowly dwindling.

Other news here: some 11% of queried buyers feel some increase in inventories may be in order—the largest such number in over two years. One reason could be the low 1.81 months' supply reported by PMs.

A slowly improving durable goods manufacturing outlook could be another factor behind the improving demand outlook. *PurchasingWorld* projections see this key indicator of steel use rising as much as 5% at annual rate during the second quarter, reversing the negative figures of

Import prices
(compared to domestic)

Steel buyers
ABOVE 37%
SAME 26%
SLIGHTLY BELOW 37%
SUBSTANTIALLY BELOW 0%
SERVICE CENTERS (carbon)
ABOVE 2%
SAME 69%
5-10% BELOW 29%
10-20% BELOW 0%
OVER 20% BELOW 0%

the past two quarters.

But despite this anticipated demand pickup, no real procurement headaches are anticipated, so 85% of queried buyers see no problems developing over the summer and fall months.

The price outlook also suggests relatively clear sailing. At least that's what steel service centers are telling survey takers these days, with 27% expecting steel tags to edge lower through fall.

Another possible price rise inhibitor is the fact that nearly three out of 10 of these same distributors feel they can obtain foreign carbon steel 6-10% below the comparable domestic product. This, incidentally, is confirmed by steel buyers.

This, in turn, could give imports a bit of a lift this year, to about 18 million tons. That's close to a million tons more than entered the country in 1989.

This month's breakdown

Index: 1982 = 100

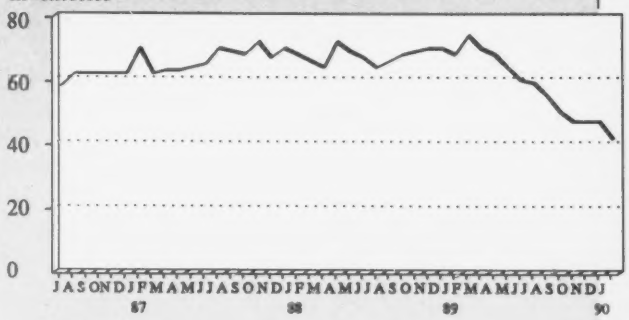
	Latest level (Feb.)	% change from: Month ago	Year ago
Bearings	130.1	1.5	7.8
Bolts, nuts, etc.	115.5	0.4	5.9
Chemicals, inorganic	111.4	0.5	3.7
Chemicals, organic	112.5	1.9	−6.7
Concrete products	112.2	0.2	1.4
Corrugated cartons	111.9	−0.3	−0.1
Cutting tools, small	112.8	0.1	3.4
Electric lamps (bulbs)	130.3	0	5.1
Electronic components	118.5	−0.7	−0.7
Fans and blowers	122.1	−0.1	4.8
Foundry and forge products	115.6	0.4	2.0
Fuel oil (residual)	55.6	−3.1	27.2
Furniture, commercial	132.4	0.5	4.3
Gasoline	67.2	−2.6	18.3
Glass, flat	108.7	−0.5	−1.6
Glass containers	119.1	1.0	6.1
Gypsum products	106.0	−0.6	−4.3
Hand tools	133.3	1.1	6.0
Hand tools, power driven	120.1	−0.4	3.9
Industrial furnaces	126.6	0.5	3.3
Integrating and measuring instruments	124.8	0.5	6.9
Internal combustion engines	117.6	0	4.3
Lubricating oil	115.6	4.6	8.3
Lumber millwork	129.3	0.2	3.4
Material handling equipment	113.6	0.1	3.4
Metal containers	113.2	0.7	3.2
Metal mill shapes (nonferrous)	129.4	−1.4	−7.0
Metal tanks	115.8	3.2	5.8
Motors and generators	132.1	0.5	3.0
Motor trucks	130.5	−0.5	−0.5
Office and store equipment	111.0	0.1	1.7
Paperboard	138.4	−0.3	−0.2
Paper boxes and shipping containers	131.2	−0.1	2.4
Paper office supplies	121.3	0.2	0.4
Paint	122.4	−0.2	4.3
Plastic resins	121.3	0.3	−14.2
Precision measuring tools	126.9	0	2.5
Pumps and compressors	117.7	0.6	4.1
Refractories	121.5	0.8	2.1
Rubber belts and belting	117.3	0.9	7.6
Scales and balances	108.0	0.2	1.9
Steel products	112.7	−0.7	−1.3
Switchgear	122.6	0.7	4.4
Textiles, synthetic fibers	107.9	0.7	6.7
Textiles, gray fabrics	118.2	0.3	3.8
Tires and tubes	96.0	−1.1	−0.9
Transformers and power regulators	120.1	0.3	3.7
Welding equipment	125.6	1.3	3.8
Wire and cable	137.9	−2.5	−6.0

NAPM procurement trends

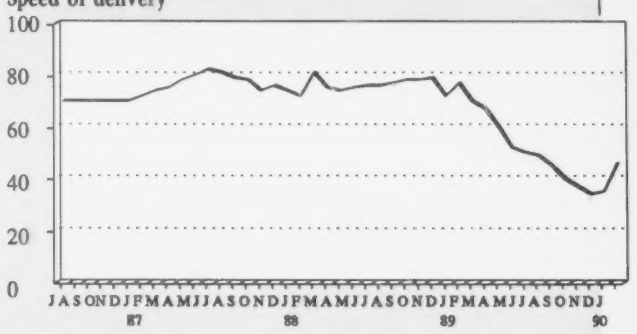
(seasonally adjusted diffusion indexes)

An index where 50 is defined as the neutral level, to the extent a reading is above 50, it represents an expansionary tendency. More particularly, rising inventory prices, and new orders are seen as positive signs of economic growth. A trend toward slower deliveries is similarly interpreted.

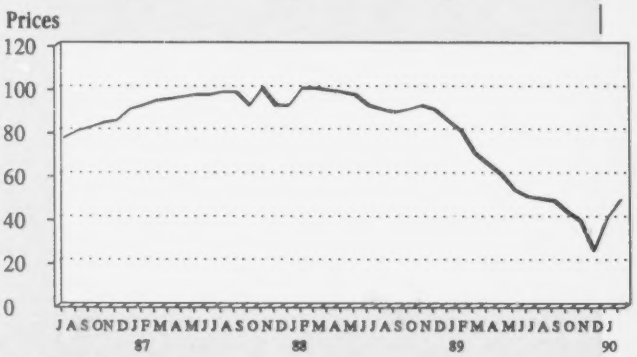
Inventories



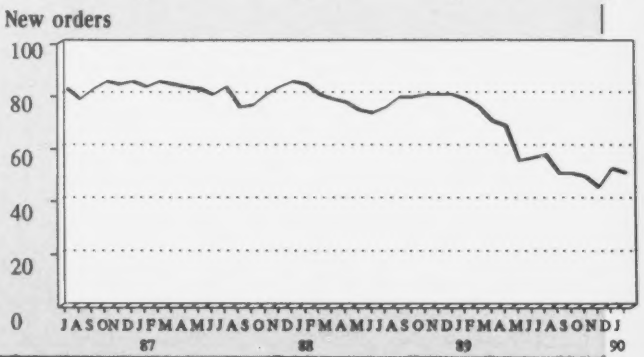
Speed of delivery

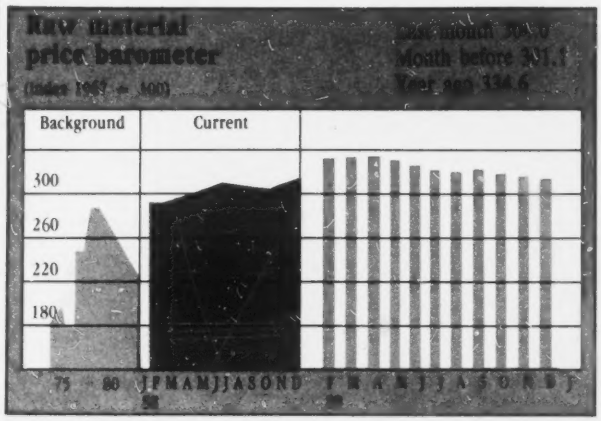


Prices



New orders





Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	23.90
Steel, bars, dlvd. Phila., cwt., merchant quality	18.70	18.70	18.70
Steel, bars, Pitts., cwt.	18.70	18.70	18.70
Steel, bars, C.R., Pitts., cwt.	23.95	23.95	25.20
Steel, plates, Pitts., cwt.	23.25	23.25	23.25
Steel, plates, H.R., Pitts., cwt.	23.25	23.25	23.25
Steel, sheets, C.R., Detroit, cwt.	30.65	30.65	29.65
Steel, strip, C.R., Chi., cwt.	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	.728	.675	.935
Antimony, N.Y., dealer, lb.	.84	.84	.99
Beryllium-copper, cost ingot, lb.	5.90	5.90	5.90
Brass, red, 85%, [sheet], lb.	1.88	1.82	2.13
Brass, yellow, [sheet], lb.	1.84	1.78	2.09
Cadmium, N.Y., dealer, lb.	4.40	4.60	7.10
Copper, electrolytic, wire bars, refd., lb.	1.25	1.19	1.50
Copper sheet, over 24 in., lb.	1.97	1.91	2.22
Lead, common, N.Y., lb.	.56	.45	.35
Magnesium, pig ingot, [99.8%], lb.	1.63	1.63	1.63
Mercury, 20 fl. lots, N.Y., fl.	285.00	290.00	295.00
Molybdenum, oxide, dealer, lb.	3.22	2.90	3.72
Nickel, cathode, dealer, lb.	4.25	3.50	6.98
Platinum, dealer, oz.	475.00	509.00	523.00
Silver, N.Y., oz.	4.98	5.12	5.80
Tin, N.Y., dealer, lb.	3.04	2.92	4.40
Zinc, Prime West, East St. Louis, lb.	.80	.70	.90
Zinc, die casting alloy, No. 3, lb.	.89	.78	.98
PAPER			
Uncoated book #3 offset, ton	940.00	940.00	1020.00
Watermarked bond, ton	1090.00	1090.00	1095.00
Gummed sealing tape, carton	19.02	19.04	18.86
Grocery sacks, ton	495.00	495.00	460.00
Solid bleached paperboard, ton	830.00	835.00	730.00
Kraft linerboard, 42 lb., unbleached, ton	410.00	410.00	410.00
TEXTILES			
Burlap, 10 oz., 40″, N.Y., yd.	.288	.282	.283
Cotton drill, 1.85, 59″, 68x49, N.Y., yd.	1.24	1.24	1.22
Cotton middling, 1″, N.Y., lb.	.710	.668	.600
Printcloth, 48″, 80x80, N.Y., spot. yd.	.50	.50	.50
Army duck, 37″, 13 oz., yd.	1.49	1.45	1.50
Blended printcloth, 64″, 78x54, yd.	.76	.72	.75
20s combed yarns	1.85	1.85	1.80
Wool 64s, Staple, lb.	3.00	3.00	3.75

	Latest price	Previous month	Year ago
CHEMICALS			
Acrylonitrile, tanks, lb.	.35	.35	.40
Ammonia, anhydrous, tankcars, Gulf Coast, ton	95.00	95.00	123.00
Benzene, petroleum, tanks, Houston, gal.	1.25	1.36	1.50
Caustic soda, 76% solid, drums, carlots, cwt.	28.00	28.00	28.00
Cresylic acid [over 25%], tanks, lb.	.55	.55	.55
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.133	.133	.106
Glycerine, synthetic, tanks, lb.	.795	.845	.785
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.40	.40	.52
Naphthalene, crude, tanks, lb.	.17	.16	.16
Phthalic anhydride, tanks, lb.	.33	.33	.41
Polyethylene resin, low density liner film grade (market place), lb.	.375	.385	.490
Polypropylene, homopolymer grade (market price), lb.	.365	.365	.460
Polystyrene, general purpose grade (market price), lb.	.490	.465	.585
Polyvinyl chloride, pipe grade (market price), lb.	.305	.285	.435
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.375	.375	.490
Sulfur, crude, ex-terminal, Tampa, Fla., lt.	123.00	123.00	142.00
Sulfuric acid, 66%, commercial, tanks, ton	69.89	69.89	66.86
Titanium dioxide, anatase, reg., carlots lb.	1.02	1.02	.95
Xylene, Gulf Coast, spot, barge, gal.	.87	.95	N.A.
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	350.78	351.00	326.95
Lumber 2x2 pine, mbf, cl	327.20	328.51	321.47
Plywood, plyform, ¾″, msf, cl	638.00	637.90	570.00
Plywood, ⅜″, msf, cl	400.57	410.94	370.22
Cement, bulk, ton, tl	62.72	62.31	63.88
Sand, ton, cl	6.97	7.05	7.17
Ready-mix concrete, 3,000 psi/cu. yd.,	47.95	47.85	48.81
Crushed stone, 1½″, ton, cl	N.A.	N.A.	N.A.
Concrete blocks, sand/gravel, 8″x8″x16″, per hundred	91.64	90.98	87.17
Reinforcing bars, whse base; per cwt	21.88	21.92	21.32
Asphalt paving AC-20	108.01	106.95	108.53
Vitr. Clay Sewer Pipe, Prem Joint, 12″, per ft, cl	N.A.	N.A.	N.A.
Concrete sewer pipe, 24″, prem. joint, per foot, cl	17.92	17.94	17.90
FUELS			
Crude oil (W. Tex Int Cush), bbl.	20.30	21.30	20.40
Diesel (reseller rack, Chi), gal.	.5685	.5385	.5110
Fuel oil No. 2 (N.Y.), gal.	.5910	.5975	.5625
Fuel oil No. 2 (Gulf spot), gal.	.5265	.5550	.4750
Fuel oil No. 6 (N.Y.) contract cargo, bbl.	20.50	24.00	18.75
Gasoline (prem unlded NY), gal.	.7185	.6025	.7000
Gasoline (reg unlded NY), gal.	.6535	.5625	.6850
Kerosene (reseller rack, Chi), gal.	.6585	.6285	.5960
Propane (Mt. Belvieu, Tex), gal.	.2413	.2338	.2225
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	103.00	98.00	114.00
Steel, No. 1 hvy., dlvd., Chi., ton	110.00	98.00	113.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	1.150	1.075	1.195
Copper, No. 2, East, wholesale buy, dlvd., lb.	1.060	.965	1.120
Brass, red, East, wholesale buy, dlvd., lb.	1.110	1.035	1.155
Brass, yellow, East, wholesale buy, dlvd., lb.	.57	.54	.61
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.510	.380	.645
Alum., mixed clip., E., wholesale buy, dlvd., lb.	.510	.450	.725
Zinc, old, East, wholesale buy, dlvd., lb.	.300	.300	.380
Lead, clean solids, East, wholesale buy, dlvd., lb.	.240	.200	.235
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., N.Y., ton	Nom.	Nom.	Nom.
Old newspapers, Chi., ton	– 20.00	– 20.00	Nom.
Old white ledger, Chi., ton	75.00	75.00	75.00

[Sources: Metals Week, American Metal Market, Engineering News-Record (20-city averages), The Wall Street Journal, Journal of Commerce, Chemical Marketing Reporter.]

DRI sees moderate price inflation

Moderate inflationary pressures are anticipated over the next few years—not overall, but for most key industrial products.

The accompanying price table—supplied to *PurchasingWorld* by Data Resources, Inc. (DRI)—tells the story. Note that most increases average out in the 3-5% annual range, pretty much a repeat of recent experience.

Two key reasons: continuing ample capacity and modest labor cost boosts. On the latter score, DRI sees wages and salaries rising by just 4.7% this year and 4.8% in 1991, not that much above the 4.3% figure of 1989. And if you zero in on manufacturing workers, the 1990 and 1991 increases are even smaller—4.2% and 4.6%, respectively.

All this, in turn, is having a restraining influence on most industrial commodity prices, with major product areas expected to shape up something along these lines:

- **Petroleum:** near-term trends will follow declining crude prices. But look for some gradual acceleration in 1991-92. The average acquisition cost for foreign crude drops 1.1% in 1990 before increasing 4.0% and 6.1% in 1991 and 1992. The overall producer price for fuels and power increases 2.0% this year, 3.2% in 1991, and 5.3% in 1992.
- **Steel:** tags should remain weak into mid-1990, but strong overseas markets and import restraints will keep the drop-off within bounds, despite lackluster demand here in the U.S. Prices will only regain momentum toward the end of the year, as markets strengthen. On an annual basis, the aggregate iron and

Industrial prices through mid-1992
(second quarter comparisons)

Product line	1991	1992
Basic raw materials & energy		
Non-food, non-fuel for mfg.	6.0	5.4
Paper and paperboard prod.	5.6	5.3
Fuel and power	3.7	5.1
Electric power	2.5	3.1
Metals		
Steel mill products	3.1	4.1
Carbon steel plate	2.6	4.6
Galvanized sheet	4.6	3.6
Cold-finished bars	4.8	4.8
Magnesium ingot	2.5	2.1
Aluminum shapes	3.7	5.7
Copper scrap	12.9	7.9
Lead	-0.3	8.6
Component parts		
Rubber belts	3.2	2.4
Industrial controls	2.9	5.2
Internal combustion engine	3.9	5.8
Industrial pumps	1.8	2.9
Water heater	2.3	4.4
Valves & fittings	1.3	6.7
Electronic components	4.4	4.7
Construction		
All materials	4.2	4.4
Gypsum products	4.0	3.5
Flat glass	3.3	3.5
Refractories	3.9	4.8
Concrete products	3.6	4.5
Asphalt roofing	3.2	3.1
Machinery		
Transformer & power regulators	-1.8	2.5
Communication equipment	2.3	1.8
Mining equipment	4.4	2.3
Trucks	3.6	3.5
Railroad equipment	4.4	4.2

Source: DRI/McGraw-Hill Cost Information Services

Gap widens:

Domestic vs. import prices

The import/domestic price gap may be widening a bit again. One indicator: tags on incoming products have recently tended to move up much less than their domestic counterparts. Over the past quarter, for example, import prices (excepting fuel) advanced only 0.7%. And on a now-*versus* 12 months-ago basis, foreign quotes (again excepting fuels) have remained virtually unchanged.

Domestic quotes, on the other hand, have continued to inch up. Indeed, the overall industrial average was, at latest report, running close to 4% above a year ago.

The improved import performance, for the most part, reflects some slow recovery in the value of the dollar *vis a vis* the currencies of many of our trading partners. In any case, the dollar is now worth more on a trade-weighted basis than it was at the beginning of 1989. And other things being equal, this tends to put a lid on landed import costs.

With all the above in mind, here's a more detailed rundown of the latest import trends—as reported by Uncle Sam's Bureau of Labor Statistics:

• **Imported crude materials:** fourth quarter tags, down 0.8%, have been falling for three consecutive quarters. The latest decline follows a large 4.9% third quarter drop—and brings the 12-month decline to near 5%. In contrast, prices for imported crude materials had increased substantially during the three preceding years.

Leading the drop was a 3.7% fall in metal ores and scrap. Import prices also continued to move lower for textile fibers and crude minerals. Meantime, cork, wood, pulp, and wastepaper all moved lower in the fourth quarter after earlier rises.

• **Fuels and related products:** A big 6.5% fourth quarter jump more than reversed a 6.1% third quarter dip. And for the year as a whole, imported fuel costs rose 30%—compared to the 16% or so decline in 1988.

During the latest quarter, crude petroleum spurted 9%. In addition, a 14% rise in gas oils was due, in part, to the unusually cold weather which increased demand for heating oil.

• **Chemicals:** a slight 1% fourth quarter increase was noted after the declines of the previous two quarters. For the year as a whole, imported chemical tags were down 2.7%.

Looking at the fourth quarter alone, five components recorded increases after having moved lower earlier in the year. Thus, organics rose 2.3%, following decreases of over 3% in each of the two preceding quarters. Inorganics, which were down sharply earlier in the year, were up 0.4%. And plastic resins edged down after increasing slightly earlier in the year.

• **Intermediate goods:** prices dropped 0.9% during the fourth quarter, marking the third consecutive quarterly decrease. For the year, averages were off 0.7%.

A closer sector-by-sector look finds that nonferrous metals were down 3.9% for the latest quarter and 14.4% for the year. Iron and steel imports were off 2.2% in the latest quarter—the first drop here in over three years. Paper and paperboard products sales also edged lower.

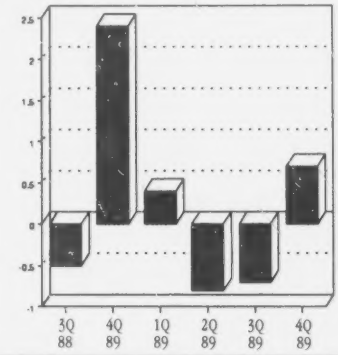
• **Machinery and equipment:** a 0.9% fourth quarter rise was primarily due to the usual model change price increases for motor vehicles. Also up after several quarters of decline were specialized machinery (1.6%), and general industrial machinery (1.1%)—with fractional increases (0.2-0.3%) also noted for office machinery, metalworking machinery, and electrical machinery.

For the year as a whole, overall machinery and transport equipment increased 0.2%—compared to increases of between 5.5% and 10.9% in the three preceding years. In contrast, telecommunications equipment imports continued to move lower—dropping 1.1% over the latest 3-month period.

• **Miscellaneous manufactured goods:** price boosts averaged 1.3% over the fourth quarter. For the year, the gain was only a slightly higher 1.8%—well under the bigger 10.4% and 3.9% gains of 1987 and 1988, respectively. Leading the fourth quarter advance were gold coins, apparel, and a catchall group dubbed photo apparatus, optical goods, watches, and clocks. **PW**

Import prices stabilize

Overall (Ex fuel)



Product-by-product

	% change from Previous quarter	% change from Year ago
Textiles	0.7	1.7
Steel bars & rods	0	4.2
Fasteners	0.1	1.8
Tools	−0.2	4.0
Electric motors & generators	−0.8	−0.1
Textile machinery	1.2	−0.3
Printing machinery	1.0	−2.4
Metalworking machinery	.03	0.1
Heating & cooling equipment	1.0	−1.6
Pumps & compressors	0.5	3.8
Mechanical handling equipment	1.6	−0.5
Bearings	3.7	4.3
Office machinery	−0.7	−1.6
Electrical machinery	0.2	−0.3
Automobiles	2.2	0.4
Electronic components	−0.4	−4.1